HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref :B1/15C

17 June 2011

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

**Reverse Mortgage Programme**

In the light of the coming launch of the Reverse Mortgage Programme (RMP) by the Hong Kong Mortgage Corporation Limited (HKMC), I am writing to set out the relevant supervisory treatments for the reverse mortgage loans under the programme (RMP loans).

**Underwriting standards**

The HKMA considers that the existing prudential guidelines on loan-to-value ratio (LTV) and debt servicing ratio (DSR) are not applicable to RMP loans, given that the repayment for these loans is basically based on the realisation of the underlying mortgaged residential property rather than on the income sources of borrowers, and that any shortfall in realising the mortgaged property would be safeguarded by the insurance protection of the HKMC.

While the requirements in relation to LTV and DSR are not directly relevant, authorized institutions (AIs) should still exercise due diligence in underwriting RMP loans with a view to ensuring that the associated risks, such as legal risk, operational risk and reputational risk, are adequately addressed. In particular, an AI participating in the RMP should put in place proper control procedures to ensuring the validity of its legal title to the underlying residential property and effective repossession of the property when a maturity event arises.

**Contribution of mortgage data to credit reference agency**

In the light of the unique features of the RMP loans and the HKMC's insurance protection to safeguard the relevant risks, AIs are not required to contribute the mortgage data of RMP loans to the credit reference agency for the time being.

**Capital adequacy**

RMP loans would fall within the definition of "residential mortgage loan" under section 2(1) of the Banking (Capital) Rules (BCR). AIs that are using the

Standardized (credit risk) approach (STC approach) or the Basic approach (BSC approach) to calculate the credit risk for non-securitization exposures should use their respective approach to calculate the credit risk for RMP loans. AIs may regard the HKMC's insurance protection as recognized guarantee.

The IRB approach is not considered an appropriate approach for capturing the capital charge for RMP loans because the concept of default of obligor is not applicable. As such, AIs using the IRB approach should seek the Monetary Authority (MA)'s exemption approval under section 12(1) of the BCR and apply the STC approach for RMP loans.

Detailed guidance relating to the above and other relevant issues, such as loan classification and accounting and impairment treatment, can be found in Annex 1 of this letter.

**Statutory return and survey reporting**

AIs are required to report their positions in respect of their RMP loans in the various statutory returns. The relevant reporting arrangements are elaborated in Annex 2. In addition, AIs participating in the HKMA's monthly RML survey will be requested to provide additional information pertaining to RMP loans in the survey. The HKMA will advise these AIs separately on the reporting arrangements in due course.

If your institution has any questions about this letter, please feel free to contact Mr Eric Kan at 2878-1096 or Mr David Yip at 2878-1588.

Yours faithfully,

Arthur Yuen
Deputy Chief Executive

Encl.